

Legislative Audit Division

State of Montana



Report to the Legislature

February 2002

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2001

Department of Agriculture

This financial-compliance audit report contains the results of our audit of the Department of Agriculture for the two fiscal years ended June 30, 2001. We issued an unqualified opinion on the financial schedules contained in the audit report. This means the reader may rely on the presented financial information.

The audit report contains no recommendations directed to the Department of Agriculture. The prior audit report contained one recommendation which the department implemented.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

February 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture (department) for fiscal years 1999-2000 and 2000-2001. The objectives of the audit were to determine if:

1. The department complied with applicable state and federal laws and regulations.
2. The department's administrative and accounting controls ensured resource use was consistent with laws and regulations; resources were safeguarded against waste, loss, and misuse; and financial information was maintained and fairly disclosed in the financial records.
3. The department's financial schedules present fairly the department's results of operations and changes in fund balances/property held in trust for the two fiscal years ended June 30, 2001.
4. The department implemented prior audit recommendations.

This audit resulted in an unqualified report (page A-1) on the department's financial schedules (page A-3) and no recommendations. The prior audit report contained one recommendation related to investment income from the noxious weed management trust fund. The department has implemented the prior recommendation. The department's response to this report is on page B-1.

A list of Appointed and Administrative Officials and Committees and Boards with respect to the department can be found on page i.

The Constitution of the state of Montana mandates the legislature provide for a Department of Agriculture. The department's statutory functions and responsibilities are to:

1. Encourage and promote the interests of Montana agriculture.
2. Collect and publish agricultural statistics.
3. Assist, encourage, and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
4. Adopt standards for grade and other classifications of farm products.

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5. Assist in the development of economical and efficient marketing distribution systems.
6. Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.
7. Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

The department is organized under the following divisions:

Central Management Division – includes the director’s office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, personnel, purchasing, property control, data processing, system analysis, computer programming, and legal support functions.

Agricultural Sciences Division – administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. It administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department’s Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Agricultural Development Division – administers programs that promote Montana agriculture through market development and business assistance. The program provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Montana Agricultural Development Council, and the Board of Hail Insurance. The division includes the State Grain Laboratory, which performs tests to establish contract settlement prices between buyers and sellers of grain crops.

We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Department of Agriculture

W. Ralph Peck, Director

Frieda Houser, Administrator, Central Management Division

Gregory H. Ames, Administrator, Agricultural Sciences Division

Will Kissinger, Administrator, Agricultural Development Division

Administratively Attached Councils, Committees and Board

Agriculture Development Council

Montana Alfalfa Seed Committee

Mint Committee

Wheat and Barley Committee

Noxious Weed Advisory Council

Weed Seed Free Forage Advisory Council

Board of Hail Insurance

Pesticide Advisory Council

Organic Commodity Advisory Council

Members of the audit staff involved in this audit were Laurie Barrett, Wayne Kedish, and Amber Long.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2000 and 2001. The information contained in these financial schedules is the responsibility of department management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2000 and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

January 31, 2002

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MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund	General Fixed Assets Group
FUND BALANCE: July 1, 2000	\$ (83,424)	\$ 4,448,855	\$ 6,492,585	\$ 0	\$ 0	\$ 3,295,318	\$ 3,633,806	\$ 5,440
PROPERTY HELD IN TRUST: July 1, 2000					\$ 2,731,850			
ADDITIONS								
Budgeted Revenues & Transfers-In	30,978	7,731,878	3,200,118				1,723,199	
NonBudgeted Revenues & Transfers-In	(49,137)	177,629	797			288,568	3,150	
Prior Year Revenues & Transfers-In Adjustments	(528)	(26,833)	(56,094)			3,964		
Direct Entries to Fund Balance	1,704,893	506,750		4		15	9,191	(5,440)
Additions To Property Held in Trust					254,000			
Total Additions	<u>1,686,206</u>	<u>8,389,424</u>	<u>3,144,821</u>	<u>4</u>	<u>254,000</u>	<u>292,547</u>	<u>1,735,540</u>	<u>(5,440)</u>
REDUCTIONS								
Budgeted Expenditure & Transfers-Out	2,113,834	8,796,026	3,235,549					
NonBudgeted Expenditure & Transfers-Out	5	116,103	627			143,950	610,593	
Prior Year Expenditure & Transfers-Out Adjustments	(173)	(55,107)	(44,319)			10		
Reductions in Property Held in Trust					306,500			
Total Reductions	<u>2,113,666</u>	<u>8,857,022</u>	<u>3,191,857</u>	<u>0</u>	<u>306,500</u>	<u>143,960</u>	<u>610,593</u>	<u>0</u>
FUND BALANCE: June 30, 2001	\$ (510,884)	\$ 3,981,257	\$ 6,445,549	\$ 4	\$ 0	\$ 3,443,905	\$ 4,758,753	\$ 0
PROPERTY HELD IN TRUST: June 30, 2001					\$ 2,679,350			

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund	General Fixed Asset Group
FUND BALANCE: July 1, 1999	\$ (10,040)	\$ 4,924,158	\$ 6,198,161	\$ 0	\$ 3,181,152	\$ 2,470,325	\$ 0
PROPERTY HELD IN TRUST: July 1, 1999				\$ 2,483,333			
ADDITIONS							
Budgeted Revenues & Transfers-In	27,305	7,166,040	2,940,961			1,459,305	
NonBudgeted Revenues & Transfers-In	634	110,855	4,827		234,355	2,236	
Prior Year Revenues & Transfers-In Adjustments		(31,548)	(27,567)		(4,589)		
Direct Entries to Fund Balance	1,007,720	441,898			14,883	17,865	
Additions To Property Held in Trust				321,431			
Total Additions	1,035,659	7,687,245	2,918,221	321,431	244,649	1,479,406	0
REDUCTIONS							
Budgeted Expenditure & Transfers-Out	1,108,705	8,115,642	2,648,085				
Nonbudgeted Expenditure & Transfers-Out	201	31,631	(8,089)		114,209	315,925	(5,440)
Prior Year Expenditure & Transfers-Out Adjustments	137	15,275	(16,198)		16,274		
Reductions to Property Held in Trust				72,914			
Total Reductions	1,109,043	8,162,548	2,623,798	72,914	130,483	315,925	(5,440)
FUND BALANCE: June 30, 2000	\$ (83,424)	\$ 4,448,855	\$ 6,492,585	\$ 0	\$ 3,295,318	\$ 3,633,806	\$ 5,440
PROPERTY HELD IN TRUST: June 30, 2000				\$ 2,731,850			

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 17,836	\$ 1,567,150				\$ 1,584,986
Taxes	218	3,285,901	\$ 155	\$ 300	\$ 22,264	3,308,838
Charges for Services	12,614	832,789	2,763,622	455		3,609,480
Investment Earnings		220,784	376,666	287,033	579,085	1,463,568
Fines and Forfeits		25,800	4,261			30,061
Sale of Documents, Merchandise and Property		9,809				9,809
Miscellaneous	645	3,855	117	44		4,661
Grants, Contracts, Donations and Abandonments		24,546		4,700		29,246
Other Financing Sources	(50,000)	819,499			1,125,000	1,894,499
Federal		1,020,988				1,020,988
Federal Indirect Cost Recoveries		71,553				71,553
Total Revenues & Transfers-In	(18,687)	7,882,674	3,144,821	292,532	1,726,349	13,027,689
Less: Nonbudgeted Revenues & Transfers-In	(49,137)	177,629	797	288,568	3,150	421,007
Prior Year Revenues & Transfers-In Adjustments	(528)	(26,833)	(56,094)	3,964		(79,491)
Actual Budgeted Revenues & Transfers-In	30,978	7,731,878	3,200,118	0	1,723,199	12,686,173
Estimated Revenues & Transfers-In	24,300	10,185,105	3,026,775		1,497,000	14,733,180
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 6,678	\$ (2,453,227)	\$ 173,343	\$ 0	\$ 226,199	\$ (2,047,007)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (164)	\$ (40,011)				\$ (40,175)
Taxes		(568,297)			\$ 264	(568,033)
Charges for Services	8,142	(865,461)	\$ 514,438			(342,881)
Investment Earnings		(309,961)	(335,009)		225,935	(419,035)
Fines and Forfeits	(1,000)	(300)	(5,986)			(7,286)
Sale of Documents, Merchandise and Property	(300)	(14,693)	(100)			(15,093)
Miscellaneous		(300)				(300)
Grants, Contracts, Donations and Abandonments		(9,995)				(9,995)
Other Financing Sources		40,593				40,593
Federal		(616,356)				(616,356)
Federal Indirect Cost Recoveries		(68,446)				(68,446)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 6,678	\$ (2,453,227)	\$ 173,343	\$ 0	\$ 226,199	\$ (2,047,007)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 17,988	\$ 1,597,607				\$ 1,615,595
Taxes	105	3,536,809	\$ 147	\$ 319	\$ 20,349	3,557,729
Charges for Services	9,317	901,858	2,606,865	280		3,518,320
Investment Earnings		253,841	306,919	224,530	316,191	1,101,482
Fines and Forfeits		36,175	4,193			40,368
Sale of Documents, Merchandise and Property		7,635				7,635
Miscellaneous	529	3,641	97	36		4,303
Grants, Contracts, Donations and Abandonments		24,457		4,600		29,057
Other Financing Sources		395,925			1,125,000	1,520,925
Federal		458,082				458,082
Federal Indirect Cost Recoveries		29,316				29,316
Total Revenues & Transfers-In	<u>27,939</u>	<u>7,245,346</u>	<u>2,918,221</u>	<u>229,765</u>	<u>1,461,541</u>	<u>11,882,812</u>
Less: Nonbudgeted Revenues & Transfers-In Adjustments	634	110,855	4,827	234,354	2,236	352,906
Prior Year Revenues & Transfers-In Adjustments		(31,549)	(27,567)	(4,589)		(63,705)
Actual Budgeted Revenues & Transfers-In	<u>27,305</u>	<u>7,166,040</u>	<u>2,940,961</u>	<u>0</u>	<u>1,459,305</u>	<u>11,593,611</u>
Estimated Revenues & Transfers-In	<u>24,300</u>	<u>8,907,058</u>	<u>2,936,925</u>		<u>1,495,000</u>	<u>13,363,283</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 3,005</u>	<u>\$ (1,741,018)</u>	<u>\$ 4,036</u>	<u>\$ 0</u>	<u>\$ (35,695)</u>	<u>\$ (1,769,672)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (12)	\$ 22,926				\$ 22,914
Taxes		(304,481)			\$ 349	(304,132)
Charges for Services	4,317	(703,182)	\$ 328,907			(369,958)
Investment Earnings		(314,200)	(318,964)		(36,044)	(669,208)
Fines and Forfeits	(1,000)	30,075	(5,807)			23,268
Sale of Documents, Merchandise and Property	(300)	(15,867)	(100)			(16,267)
Miscellaneous		(300)				(300)
Grants, Contracts, Donations and Abandonments		(9,995)				(9,995)
Other Financing Sources		(169,075)				(169,075)
Federal		(236,235)				(236,235)
Federal Indirect Cost Recoveries		(40,684)				(40,684)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 3,005</u>	<u>\$ (1,741,018)</u>	<u>\$ 4,036</u>	<u>\$ 0</u>	<u>\$ (35,695)</u>	<u>\$ (1,769,672)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Program (Sub- Class) Not Specified	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries		\$ 953,821	\$ 1,657,918	\$ 456,855	\$ 3,068,594
Other Compensation		9,375	2,575		11,950
Employee Benefits		246,240	433,383	113,960	793,583
Personal Services-Other	\$ (1,224)				(1,224)
Total	<u>(1,224)</u>	<u>1,209,436</u>	<u>2,093,876</u>	<u>570,815</u>	<u>3,872,903</u>
Operating Expenses					
Other Services		1,265,011	347,472	25,004	1,637,487
Supplies & Materials		55,755	178,508	12,363	246,626
Communications		56,024	69,949	11,151	137,124
Travel		196,783	79,548	17,251	293,582
Rent		40,296	68,204	24,901	133,401
Utilities		9,547			9,547
Repair & Maintenance		10,625	22,898	1,957	35,480
Other Expenses	53,455	641,809	39,768	24,930	759,962
Total	<u>53,455</u>	<u>2,275,850</u>	<u>806,347</u>	<u>117,557</u>	<u>3,253,209</u>
Equipment & Intangible Assets					
Equipment			315,392		315,392
Total			<u>315,392</u>		<u>315,392</u>
Grants					
From Other State Sources		1,751,661	2,105,754		3,857,415
Total		<u>1,751,661</u>	<u>2,105,754</u>		<u>3,857,415</u>
Benefits & Claims					
From State Sources		2,891,594			2,891,594
Total		<u>2,891,594</u>			<u>2,891,594</u>
Transfers					
Accounting Entity Transfers		85,992	640,593		726,585
Total		<u>85,992</u>	<u>640,593</u>		<u>726,585</u>
Total Expenditures & Transfers-Out	\$ <u>52,231</u>	\$ <u>8,214,533</u>	\$ <u>5,961,962</u>	\$ <u>688,372</u>	\$ <u>14,917,098</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ (201)	\$ 1,841,900	\$ 64,316	\$ 207,651	\$ 2,113,666
Special Revenue Fund	53,523	3,075,542	5,282,784	445,173	8,857,022
Enterprise Fund	(1,224)	3,153,264	4,269	35,548	3,191,857
Expendable Trust Fund	133	143,827			143,960
Nonexpendable Fund			610,593		610,593
Total Expenditures & Transfers-Out	<u>52,231</u>	<u>8,214,533</u>	<u>5,961,962</u>	<u>688,372</u>	<u>14,917,098</u>
Less: Nonbudgeted Expenditures & Transfers-Out	54,283	161,942	655,052		871,277
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,052)</u>	<u>(65,498)</u>	<u>(32,067)</u>	<u>29</u>	<u>(99,588)</u>
Actual Budgeted Expenditures & Transfers-Out	0	8,118,089	5,338,977	688,343	14,145,409
Budget Authority		13,112,699	5,987,852	703,836	19,804,387
Unspent Budget Authority	\$ <u>0</u>	\$ <u>4,994,610</u>	\$ <u>648,875</u>	\$ <u>15,493</u>	\$ <u>5,658,978</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund		\$ 71,105	\$ 1,286	\$ 12,024	\$ 84,415
Special Revenue Fund		4,259,960	647,494	3,469	4,910,923
Enterprise Fund		663,545	95		663,640
Unspent Budget Authority	\$ <u>0</u>	\$ <u>4,994,610</u>	\$ <u>648,875</u>	\$ <u>15,493</u>	\$ <u>5,658,978</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	Program (Sub-class) Not Specified	Agricultural Development Division	Agricultural Science Division	Central Management Division	NB	Total
PROGRAM SUB-CLASS EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries		\$ 826,750	\$ 1,591,611	\$ 413,756	\$ 44,844	\$ 2,876,961
Other Compensation		11,000	8,300			19,300
Employee Benefits		203,075	421,728	98,761	12,280	735,844
Personal Services-Other	\$ (8,089)					(8,089)
Total	<u>(8,089)</u>	<u>1,040,825</u>	<u>2,021,639</u>	<u>512,517</u>	<u>57,124</u>	<u>3,624,016</u>
Operating Expenses						
Other Services		766,725	374,970	63,980	10,486	1,216,161
Supplies & Materials		100,784	213,590	30,253	5,774	350,401
Communications		51,432	69,324	11,705	4,605	137,066
Travel		182,874	120,103	28,419	17,314	348,710
Rent		32,927	59,477	23,761	3,524	119,689
Utilities		7,807				7,807
Repair & Maintenance		15,496	26,329	1,688	293	43,806
Other Expenses	16,495	600,925	39,347	20,640	13,665	691,072
Total	<u>16,495</u>	<u>1,758,970</u>	<u>903,140</u>	<u>180,446</u>	<u>55,661</u>	<u>2,914,712</u>
Equipment & Intangible Assets						
Equipment			195,480	13,603		209,083
Total			<u>195,480</u>	<u>13,603</u>		<u>209,083</u>
Grants						
From State Sources		880,005	1,986,260		2,800	2,869,066
From Federal Sources		12,580				12,580
Total		<u>892,586</u>	<u>1,986,260</u>		<u>2,800</u>	<u>2,881,646</u>
Benefits & Claims						
From State Sources		2,253,441				2,253,441
Total		<u>2,253,441</u>				<u>2,253,441</u>
Transfers						
Accounting Entity Transfers	(44,224)	106,226	390,149			452,151
Total	<u>(44,224)</u>	<u>106,226</u>	<u>390,149</u>			<u>452,151</u>
Debt Service						
Leases		1,308				1,308
Total		<u>1,308</u>				<u>1,308</u>
Total Expenditures & Transfers-Out	\$ <u>(35,818)</u>	\$ <u>6,053,356</u>	\$ <u>5,496,668</u>	\$ <u>706,566</u>	\$ <u>115,585</u>	\$ <u>12,336,357</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 201	\$ 827,573	\$ 51,210	\$ 230,059		\$ 1,109,043
Special Revenue Fund	15,055	2,632,949	5,071,821	441,233	\$ 1,490	8,162,548
Enterprise Fund	(8,089)	2,592,684	3,929	35,274		2,623,798
Expendable Trust Fund	16,238	150			114,095	130,483
Nonexpendable Fund	(59,223)		375,148			315,925
General Fixed Asset Group			(5,440)			(5,440)
Total Expenditures & Transfers-Out	<u>(35,818)</u>	<u>6,053,356</u>	<u>5,496,668</u>	<u>706,566</u>	<u>115,585</u>	<u>12,336,357</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(52,057)	150	384,790		115,555	448,438
Prior Year Expenditures & Transfers-Out Adjustments	16,239	(446)	(339)	5	30	15,488
Actual Budgeted Expenditures & Transfers-Out	0	6,053,652	5,112,217	706,562	0	11,872,431
Budget Authority		12,818,047	5,696,051	745,053		19,259,151
Unspent Budget Authority	\$ 0	\$ 6,764,395	\$ 583,834	\$ 38,491	\$ 0	\$ 7,386,720
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund		\$ 1,670,459	\$ 11,559	\$ 32,594		\$ 1,714,612
Special Revenue Fund		4,348,452	571,841	5,897		4,926,190
Enterprise Fund		745,484	434			745,918
Unspent Budget Authority	\$ 0	\$ 6,764,395	\$ 583,834	\$ 38,491	\$ 0	\$ 7,386,720

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Department of Agriculture

Notes to the Financial Schedules for the Two Fiscal Years ended June 30, 2001

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Department of Agriculture (department) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) without adjustment.

Notes to the Financial Schedules

Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include activities related to the Montana Growth Through Agriculture Program; registration and inspections of fertilizers and feed; grain inspections; wheat, barley, and alfalfa seed market research and promotion; and noxious weed management projects.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate. Department Enterprise Funds include the Hail Insurance and the Alfalfa Leaf Cutting Bee programs.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Department fiduciary funds include Expendable Trust Funds, Nonexpendable Trust Funds, and Agency Funds.

The Expendable Trust Fund holds Rural Development assets transferred to the state under the Rural Rehabilitation Corporation Liquidation Act. The department uses this fund to operate its Rural Development Loan Programs.

The Nonexpendable Trust Fund holds 50 percent of the proceeds from a surcharge assessed on registered herbicides sold for consumer use. Section 80-7-814, MCA, states when the principal in this fund

reaches \$2.5 million, any interest generated may be expended for noxious weed management projects, as long as the principal remains at least \$2.5 million. The principal reached \$2.5 million on July 31, 1992. The surcharge was terminated on December 31, 1993. The termination of the surcharge does not prevent the department from expending the interest earnings on projects. The 1999 Legislative session enacted section 80-7-822, MCA, that transferred \$1,125,000 in fiscal years 1999-2000 and 2000-2001 from the highway non-restricted account established in section 15-70-125, MCA, to the noxious weed management trust fund, provided for in section 80-7-810(2), MCA, for noxious weed management. The money may not be expended until the principal of the trust fund reaches \$10 million. However, interest or revenue generated by the trust fund must be deposited in the special revenue fund and may be expended for noxious weed management projects.

Agency Funds account for commercial pesticide applicator certificates of deposit which the state holds to ensure the public will be compensated if applicators are negligent. The department also holds certificates of deposit and letters of credit from commodity dealers, produce wholesalers, and public warehousemen to meet bonding requirements. Commodity dealers, produce wholesalers, and public warehousemen may also insure themselves through private bonding companies.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the Statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The Department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2000, and June 30, 2001.

3. Expenditure Program (Sub-Class)

As part of the implementation of a new accounting system in fiscal year 1999-2000, state officials determined that a sub-class designation would identify the program to which an expenditure

Notes to the Financial Schedules

should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code nonbudgeted accounts with a sub-class code identifying the expenditure program in which the activity occurred until September 2000. This new edit requires that all expenditure transactions entered through the general ledger include a sub-class value. This nonbudgeted activity is included in the column titled Program (Sub-Class Not Specified) on the Schedules of Total Expenditures & Transfers-Out.

4. Direct Entries to Fund Balance

Direct entries to fund balance in the General and Special Revenue fund types in fiscal year 1999-2000 and fiscal year 2000-2001 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.



JUDY H. MARTZ
GOVERNOR

MONTANA DEPARTMENT OF AGRICULTURE

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February 27, 2002

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LEGISLATIVE AUDIT DIV.

Scott A. Seacat
Legislative Auditor
Room 135 State Capitol
Helena MT 59620-1705

Dear Mr. Seacat:

We would like to thank you and your staff for the professional and courteous manner in which the department's financial-compliance audit was performed. We will continue to do our best to provide for the appropriate administration of the department.

Sincerely,

Ralph Peck
Director